



# **Presentation to Investors**

**March 2006**



# Forward-Looking Statements

This presentation contains forward-looking statements relating to future events and future performance. Any statements regarding expectations, beliefs, plans, projections, estimates, objectives, intentions, assumptions or otherwise relating to future events or performance may be forward-looking. In certain cases, forward-looking statements can be identified by the use of words such as “may,” “will,” “should,” “expect,” “anticipate,” “believe,” “intend,” “project,” “plan,” “predict,” “assume,” “estimate,” “objective,” “possible,” “potential,” or other similar expressions.

Some examples of forward-looking statements include statements regarding TVA’s projections of future power and energy requirements; future costs related to environmental compliance; impacts of potential legislation on TVA and the likelihood of enactment of such legislation; strategic objectives; anticipated availability of nuclear waste storage facilities; projections of nuclear decommissioning costs; expectations about the adequacy of TVA’s nuclear decommissioning fund; the impact of new accounting pronouncements and interpretations; the anticipated cost and timetable for returning Browns Ferry Unit 1 to service; and impacts of pending litigation and various administrative orders which have been or may be issued.

Although TVA believes that the assumptions underlying the forward-looking statements are reasonable, TVA does not guarantee the accuracy of these statements. Numerous factors could cause actual results to differ materially from those in the forward-looking statements. These factors include, among other things, new laws, regulations, and administrative orders, especially those related to the restructuring of the electric power industry and various environmental matters; increased competition among electric utilities; changes to the provision that prohibits FERC from ordering TVA to deliver power from a non-TVA source to a customer if the power would be consumed within TVA’s defined service territory; legal and administrative proceedings affecting TVA; the financial and economic environment; performance of TVA’s generation and transmission assets; fuel prices; demand for electricity; changes in technology; changes in the price of power; loss of any significant customers or suppliers; creditworthiness of counterparties; weather conditions and other natural phenomena; damage to power production or transmission facilities or systems due to accidental events or terrorist activity; changes in accounting standards; and unforeseeable events. New factors emerge from time to time, and it is not possible for management to predict all such factors or to assess the extent to which any factor or combination of factors may impact TVA’s business or cause results to differ materially from those contained in any forward-looking statement.

TVA undertakes no obligation to update any forward-looking statement to reflect developments that occur after the statement is made. This presentation does not contain all information about TVA or TVA securities that is important for making investment decisions and does not constitute an offer to sell or a solicitation of an offer to buy any TVA securities.



# Outline

- **TVA Corporate Profile**
- **Financial Results and Trends**
  - FY 2005 results
  - FY 2006 expectations
  - Recent developments
- **Financing Program Update**



# **Corporate Profile**



# Corporate Profile

**Ownership**

Wholly owned U.S. Government Corporation

**Location**

Southeastern United States

**Credit Ratings**

AAA/Aaa

**2005 Total Revenues**

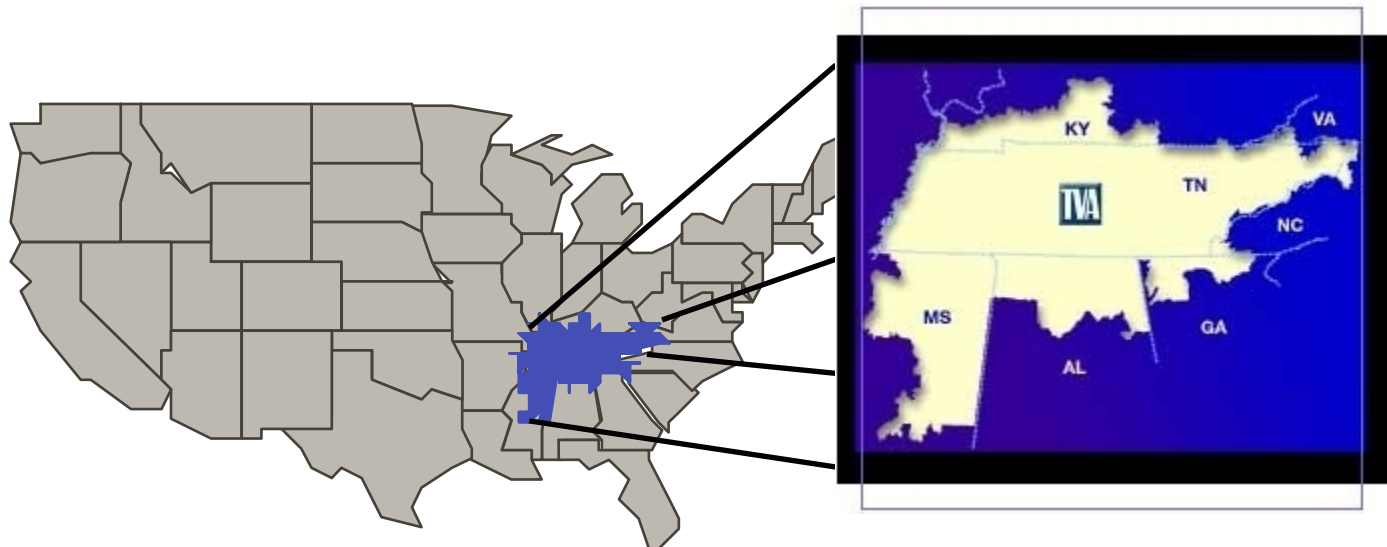
\$7.8 billion

**2005 Operating Income**

\$1.3 billion

**Core Business**

Wholesale power generation, integrated river system stewardship, and economic development





# Corporate Profile

## **Power System Resources**

### **Total System Capacity**

### **Owned/Leased Capacity**

### **Total Assets**

### **2005 Power Generation**

### **2005 Power Sales**

### **Service Area Size**

### **Customers**

Hydroelectric, Coal-fired, Nuclear, Combustion  
Turbine, Diesel Generators, Green Power

33,981 MW (winter net dependable)

32,259 MW (summer net dependable)

30,644 MW (winter net dependable)

\$34.6 billion

160 billion kWh

171 billion kWh

80,000 square miles across parts of seven states

158 municipal and cooperative power distributors;  
61 directly-served industrial customers and  
federal agencies





# TVA's Regulatory Structure

- **Congressional Oversight** – TVA is a wholly-owned government corporation with Congressional oversight:
  - House Transportation & Infrastructure Committee
  - Senate Environment & Public Works Committee
- **Government Appointed Board Members** – Board members are appointed by the President and confirmed by the U.S. Senate.
  - Among other things, responsible for setting TVA power rates, developing long-term plans, and approving annual budgets.
- **Independent Inspector General** – As an agency of the U.S. Government, TVA has an independent Inspector General. The IG conducts ongoing operational and financial audits of TVA.
- **SEC Filing** – Beginning with the FY 2006 Annual Report, TVA will file annual (10-K), quarterly (10-Q) and current (8-K) reports with the Securities & Exchange Commission.



# Summary of Governance Changes

	<b>CURRENT STRUCTURE</b>	<b>NEW STRUCTURE*</b>
<b>BOARD STRUCTURE</b>	<b>3 Person, Full-Time Board</b> <i>(appointed by President &amp; confirmed by Senate)</i>	<b>9 Person, Part-Time Board</b> <i>(appointed by President &amp; confirmed by Senate)</i>
<b>RATEMAKING AUTHORITY</b>	<b>TVA Board Sets Power Rates</b>	<b>TVA Board Sets Power Rates</b>
<b>BOARD MEMBER TERM-LENGTH</b>	<b>9-Year Terms</b>	<b>5-Year Terms</b>
<b>MANAGEMENT</b>	<b>Board Manages Daily Operation</b>	<b>CEO Manages Daily Operation</b>
<b>COMPENSATION</b>	<b>Base Salary Restricted</b>	<b>Salary Restrictions Removed</b>
<b>AUDIT COMMITTEE</b>	<b>No Audit Committee</b>	<b>Audit Committee</b>
<b>FINANCIAL FILINGS</b>	<b>Voluntary Financial Reporting &amp; Disclosure</b>	<b>Reports Filed with SEC</b> <i>(Forms 10-K, 10-Q, 8-K)</i>

\*TVA's new governance structure will be effective when at least 3 of 7 new Board members take office.





# **Financial Results and Trends**



# Fiscal Year 2005 Highlights

- **Continued to provide affordable, reliable power:**
  - 6<sup>th</sup> straight year of 99.999% transmission reliability
  - Met new all-time TVA peak demand of 31,924 MW in July
  - Set new monthly peak demand records for five consecutive months (June-October)
  - 2005 generation equivalent to over 12% of the electricity consumption by all U.S. households
- **Power sales increased by more than 3-percent:**
  - Sharp increase in fuel and purchased power costs
  - Held increase in O&M costs to less than 2-percent
  - Other controllable costs reduced or held steady



## Fiscal Year 2005 Highlights

- **Reduced Total Financing Obligations by \$301 million**
- **Liquidity enhancement:**
  - Agreement for an unsecured revolving line of credit of up to \$2.5 billion with a national bank signed in May 2005, renewed in November
- **Remain committed to a financially strong TVA**



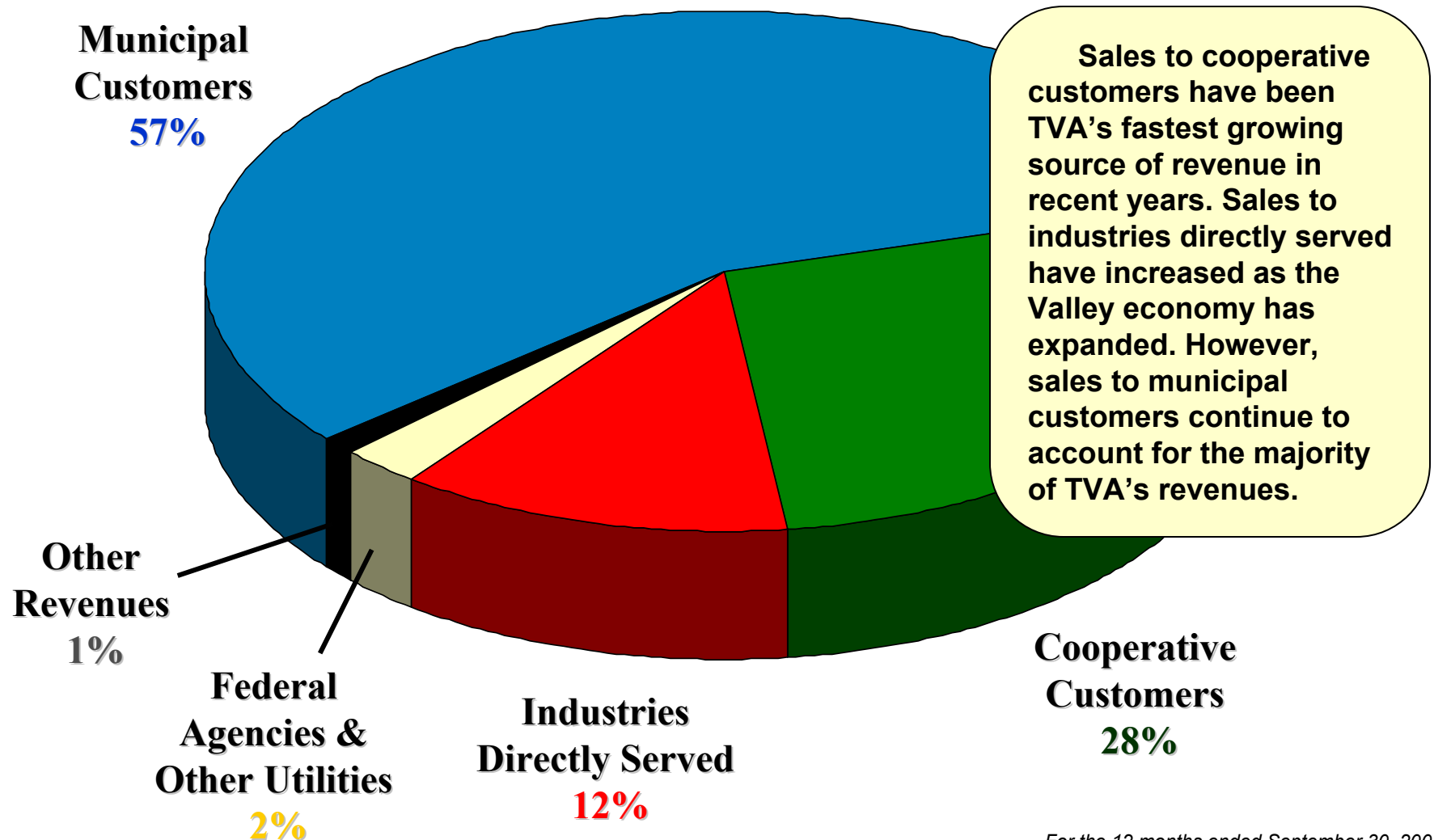
# Summary Statements of Income

*For the fiscal years ended September 30 (in millions)*

	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Total operating revenues</b>	<b>\$ 7,794</b>	<b>\$ 7,533</b>	<b>\$ 6,953</b>
Fuel and purchased power expense	(2,601)	(2,081)	(1,957)
Operating and maintenance expense	(2,359)	(2,319)	(2,039)
Depreciation and accretion expense	(1,154)	(1,115)	(1,073)
Tax-equivalents expense	(365)	(338)	(329)
Loss on asset impairment/project cancellation	(24)	(20)	-
<b>Total operating expenses</b>	<b>(6,503)</b>	<b>(5,873)</b>	<b>(5,398)</b>
Other Income, Net	36	30	22
<b>Net interest expense</b>	<b>(1,242)</b>	<b>(1,304)</b>	<b>(1,350)</b>
Cumulative effects of accounting changes	-	-	217
<b>Net income</b>	<b>\$ 85</b>	<b>\$ 386</b>	<b>\$ 444</b>



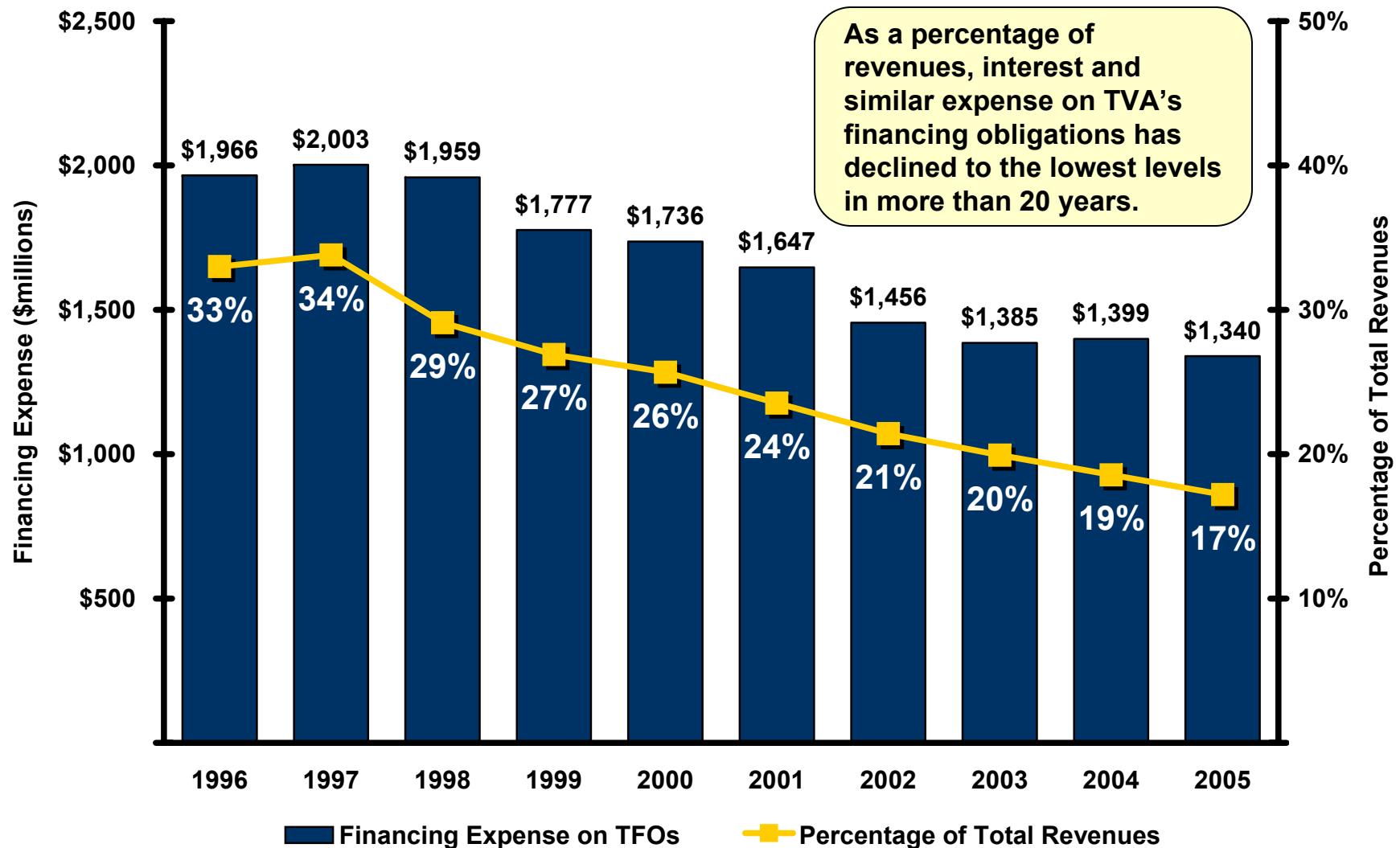
# Sources of Revenue



*For the 12 months ended September 30, 2005*



# Financing Expense as a Percentage of Revenues



Financing expense includes net annual interest on bonds and notes and annual expense associated with other financing obligations.



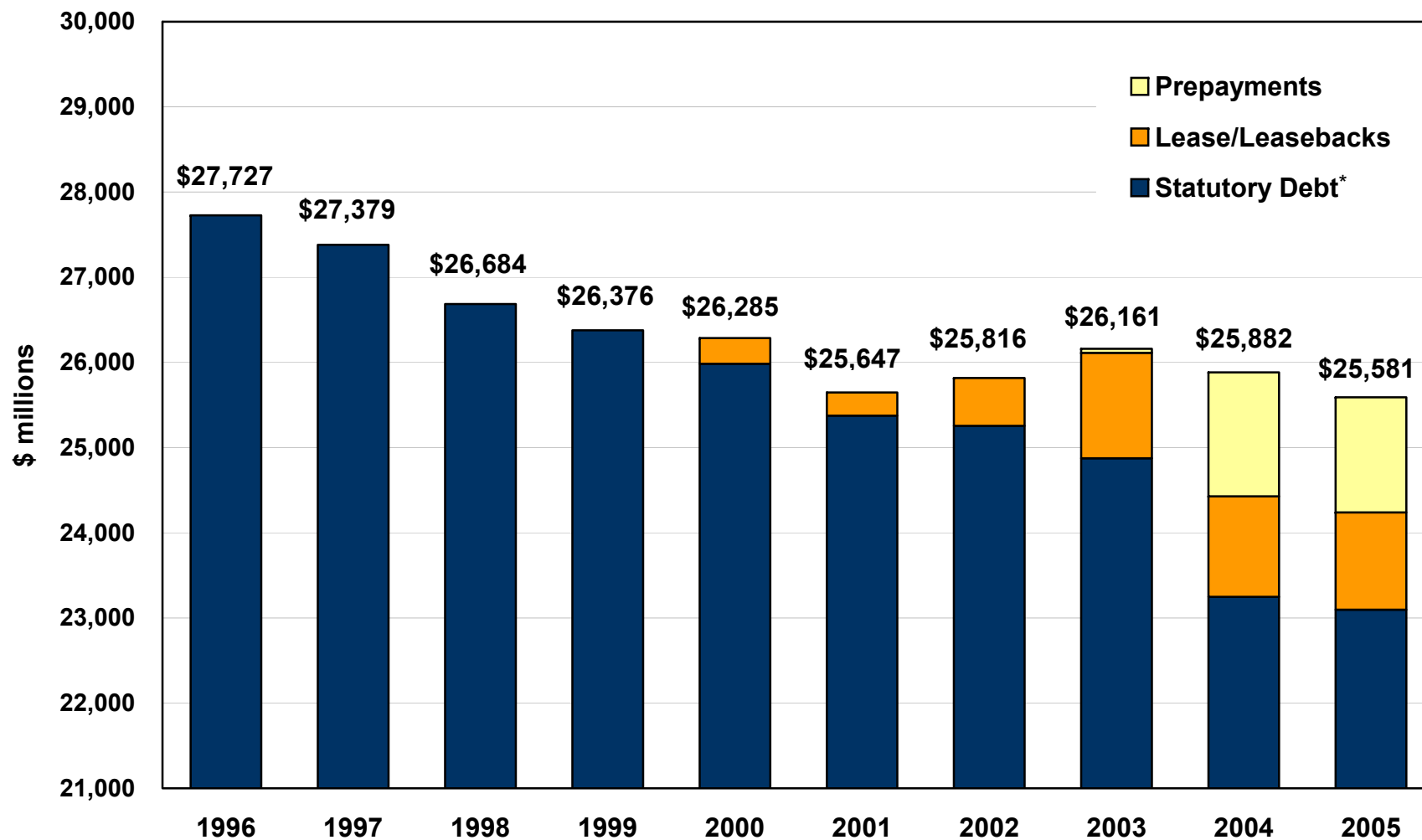
# Summary Balance Sheets

*At September 30 (in millions)*

	<b>2005</b>	<b>2004</b>
<b>Assets</b>		
Total current assets	\$ 2,269	\$ 2,386
Total property, plant and equipment, net	23,888	23,699
Investment funds	858	744
Total regulatory and other long-term assets	7,551	7,451
<b>Total assets</b>	<b><u>\$ 34,566</u></b>	<b><u>\$ 34,280</u></b>
Total current liabilities	\$ 6,817	\$ 5,511
Total other liabilities	7,606	7,168
Long-term debt, net	17,751	19,337
<b>Total liabilities</b>	<b><u>32,174</u></b>	<b><u>32,016</u></b>
<b>Total proprietary capital</b>	<b><u>2,392</u></b>	<b><u>2,264</u></b>
<b>Total liabilities and proprietary capital</b>	<b><u>\$ 34,566</u></b>	<b><u>\$ 34,280</u></b>



# Change in Financing Obligations



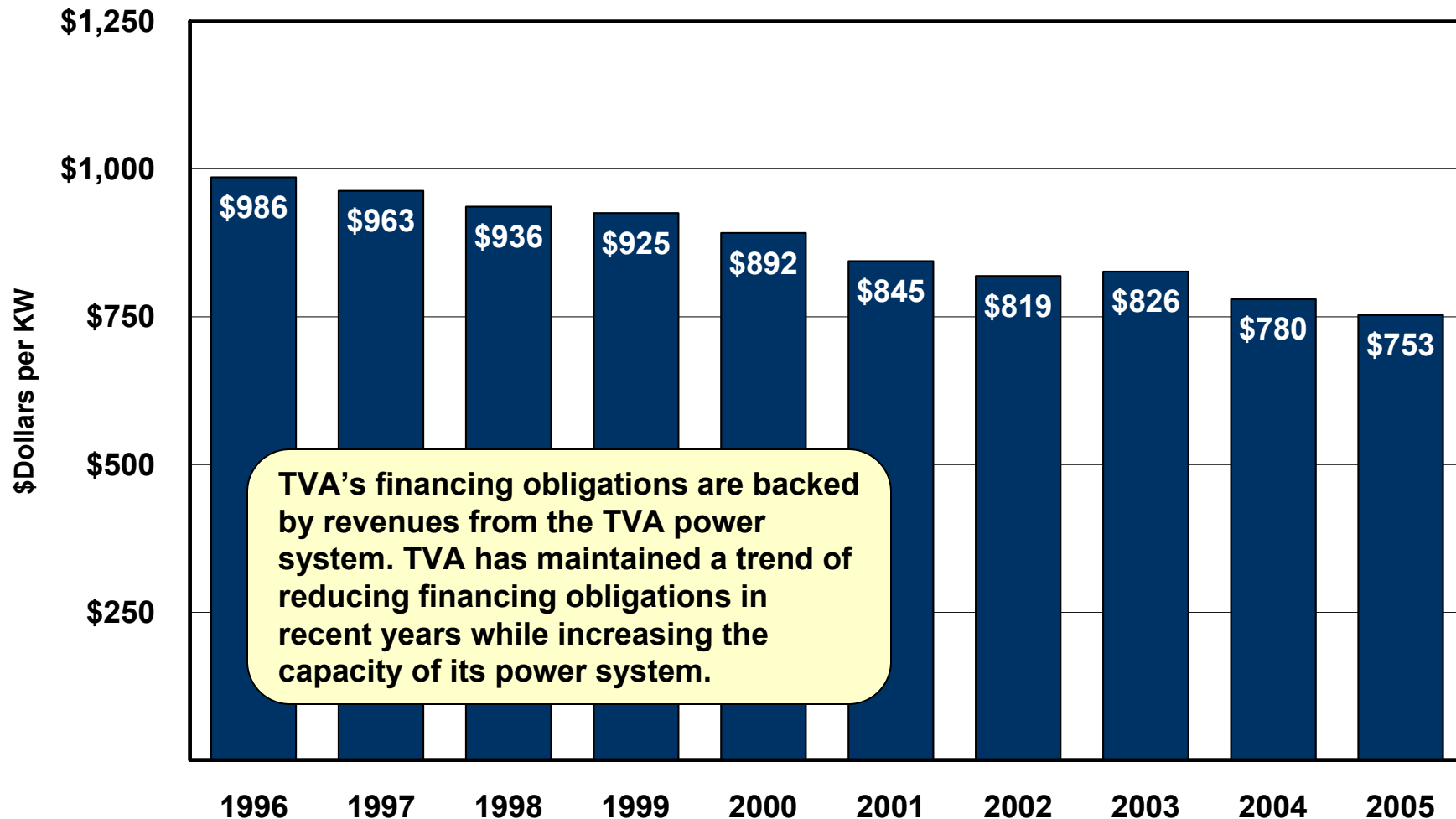
\* Statutory debt includes TVA short and long-term bonds and notes.





# Financing Obligations Are Decreasing As Power System Capacity Is Increasing

TVA Total Financing Obligations per Kilowatt (KW) of Power System Capacity



*Note: Power system capacity, as represented, is winter net dependable capacity.*



# Projected Capital Expenditures

*Current and planned capital expenditures reflect TVA's goals of maintaining high power system reliability and meeting regulatory requirements.*

	2003	2004	2005	Estimated				
				2006	2007	2008	2009	2010
<b>BFN Unit 1 Restart</b>	<b>\$ 381</b>	<b>\$ 442</b>	<b>\$ 417</b>	<b>\$ 420</b>	<b>\$ 81</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Clean Air</b>	<b>540</b>	<b>436</b>	<b>201</b>	<b>201</b>	<b>305</b>	<b>335</b>	<b>306</b>	<b>290</b>
<b>Transmission</b>	<b>222</b>	<b>170</b>	<b>173</b>	<b>245</b>	<b>211</b>	<b>313</b>	<b>319</b>	<b>312</b>
<b>Other</b>	<b>550</b>	<b>504</b>	<b>431</b>	<b>467</b>	<b>492</b>	<b>596</b>	<b>510</b>	<b>560</b>
<b>Total</b>	<b>1,693</b>	<b>1,552</b>	<b>1,222</b>	<b>1,333</b>	<b>1,089</b>	<b>1,244</b>	<b>1,135</b>	<b>1,162</b>



# TVA Retirement System

## System Structure

- **Separate Legal Entity** (from TVA)
- **Seven Member Board:**
  - Three directors appointed by TVA
  - Three directors elected from system membership
  - Seventh director elected by the other six
- **22,000 Retiree Participants**
- **12,500 Employee Participants**

## System Financials

- **\$7 billion in Plan Assets**  
(60% equity, 40% fixed-income)
- **\$1.2 billion in 401(k) Assets**
- **\$400 million in Annual Benefit Payments**
- **System 103% Funded**  
(at September 30, 2005)

<b>Historical</b>	
<b>Asset Returns</b>	<b>Benchmark*</b>
1-Year: 14.3%	vs 12.4%
3-Year: 17.0%	vs 15.0%
5-Year: 4.1%	vs 3.7%

\* All returns monthly compounded annualized returns. Policy benchmark is composed of 30% Lehman Aggregate bond index, 10% First Boston High Yield bond index, 45% Wilshire 5000 Index, and 15% MSCI All Country World Index ex-U.S.



## Expectations for FY 2006

- **Almost \$9 billion in revenue forecasted**
  - Forecast includes October and April rate increases
- **Fuel and purchased power costs to exceed \$3 billion**
- **Non-fuel operating expense expected to remain steady**
- **\$340 million budgeted reduction of Total Financing Obligations**



# Recent Business Developments

- **Continuing to reduce controllable costs**
- **Raising power rates to offset non-controllable cost increases**
  - July 2005 – TVA Board approved 7.5-percent increase in firm wholesale power rates (effective October 2005)
  - February 2006 – TVA Board approved 9.95-percent increase in firm wholesale power rates (effective April 2006)
- **Proceeding with testing Fuel Cost Adjustment mechanism**
  - Goal of mitigating cash flow impacts
  - Strong customer support and recognition of need



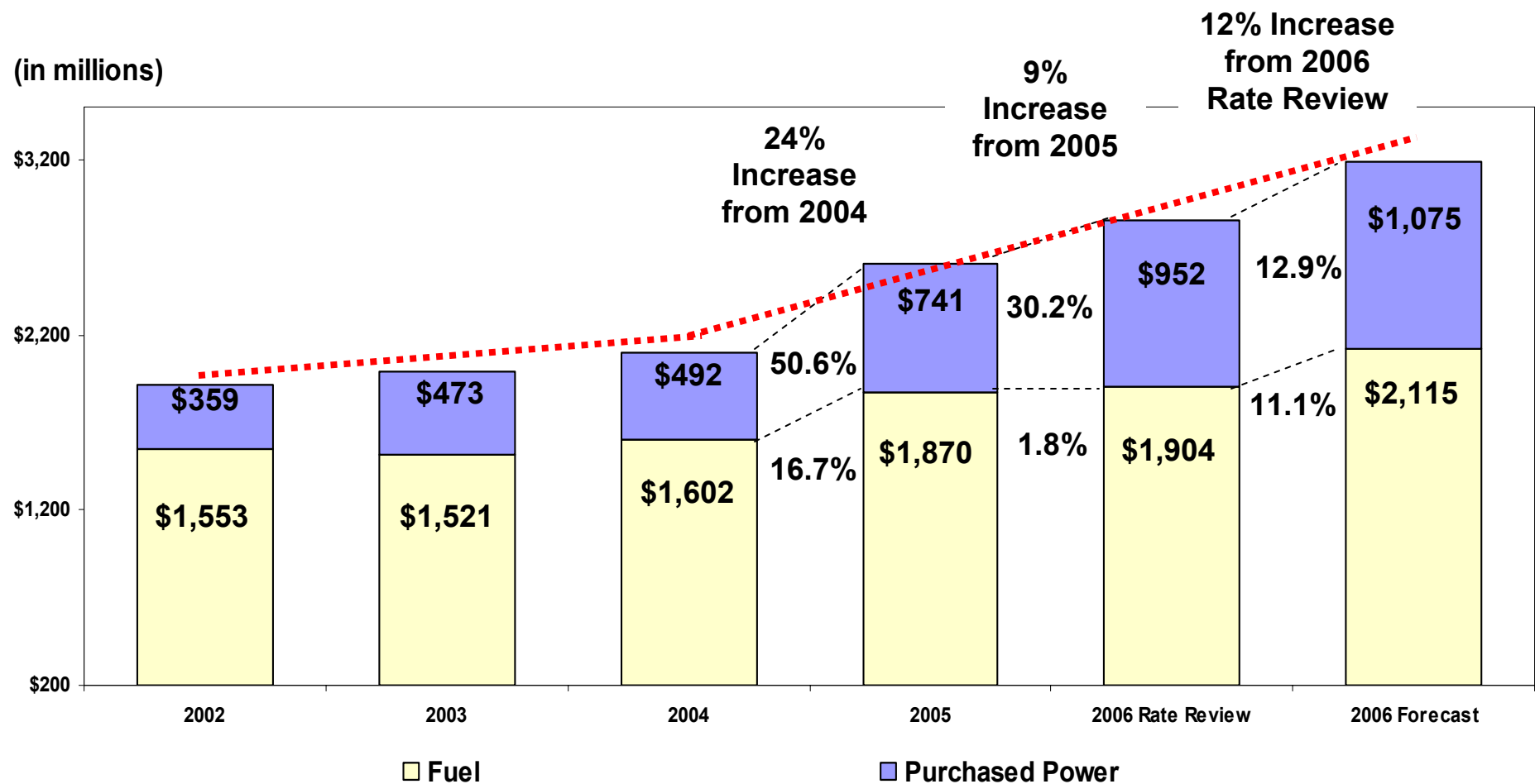
# Recent Business Developments

- **Continued progress in major capital programs**
  - Browns Ferry Nuclear Unit 1 restart effort >75% complete
- **Clean air programs starting to show results:**
  - TVA's 11 coal-fired power plants achieved their lowest-ever emission levels in 2005 (while producing a near-record amount of electricity)
- **TVA FERC Reliability Coordinator service area expanding**
  - Coordinator for 192,000-square-mile "footprint" over parts of 11 states, with more than 47,000 megawatts of generation
  - Control area expanding in Arkansas



# Fuel & Purchased Power Expense

Current forecast reflects significant and rapid increases in non-controllable power supply costs.





## Conclusion

- TVA remains a national leader in power system reliability and operating performance
- Non-controllable fuel and purchased power costs are escalating for all utilities and are a major concern
- TVA continues to benefit from its diversified generation fleet and strong operating performance
- TVA's competitiveness in the region it serves remains relatively unchanged
- Examining all options to hold down controllable costs and increase financial flexibility





# **Financing Program Update**



# Financing Program History

- **Early Bond Issues: 1933 – 1939**
  - Original TVA Act in 1933 authorized TVA to issue bonds with “*all the rights and privileges accorded by law to Panama Canal bonds.*”
- **Congressional Appropriations: 1939 – 1959** (primarily)
  - Total = \$1.4 billion (including property transfers)
- **Self-Financing Amendment** to the TVA Act: 1959
- **Public Markets: 1961 – 1974**
- **Federal Financing Bank (U.S. Treasury): 1974 – 1989**
- **Public Markets: 1989 – Present**
  - Total long-term issuance since 1989 > \$56 billion\*



\*including alternative financings



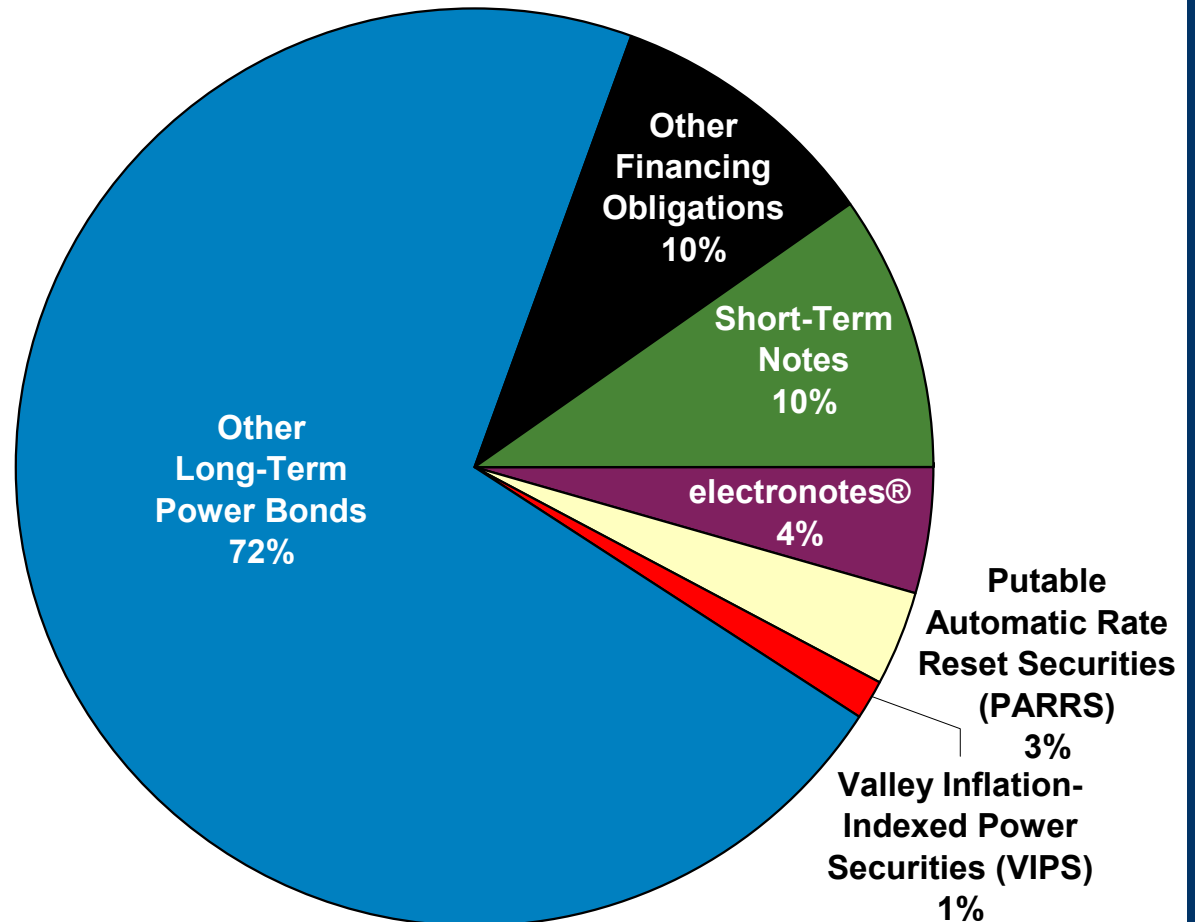
## What Makes TVA Unique as an Agency Issuer?

- **TVA is an electric power generator and stewardship agency:**
  - America's largest public power generator
  - Completely self-funded (receives no taxpayer funding)
  - Power infrastructure composed of tangible, cash-producing assets
  - Reliability coordinator and critical part of the nation's power infrastructure
  - Over 70 years of successful power operation and stewardship activity spanning several wars, multiple economic cycles, and various industry trends
- **Different structure than GSE issuers:**
  - Wholly-owned by the U.S. Government (no equity shareholders)
  - TVA finances included in annual federal budget proposals and in the financial statements of the U.S. Government



# TVA's Financing Portfolio

- TVA financing obligations consist of bonds, notes and other forms of financing.
- Short and long-term bonds and notes represent 90% of total financing obligations.
- Bonds and notes include short-term Discount Notes and long-term Power Bonds.
- Other financing obligations include certain lease arrangements and obligations resulting from customer power prepayments.



*At December 31, 2005 (unaudited)*



## Refinancing of Maturing Bonds

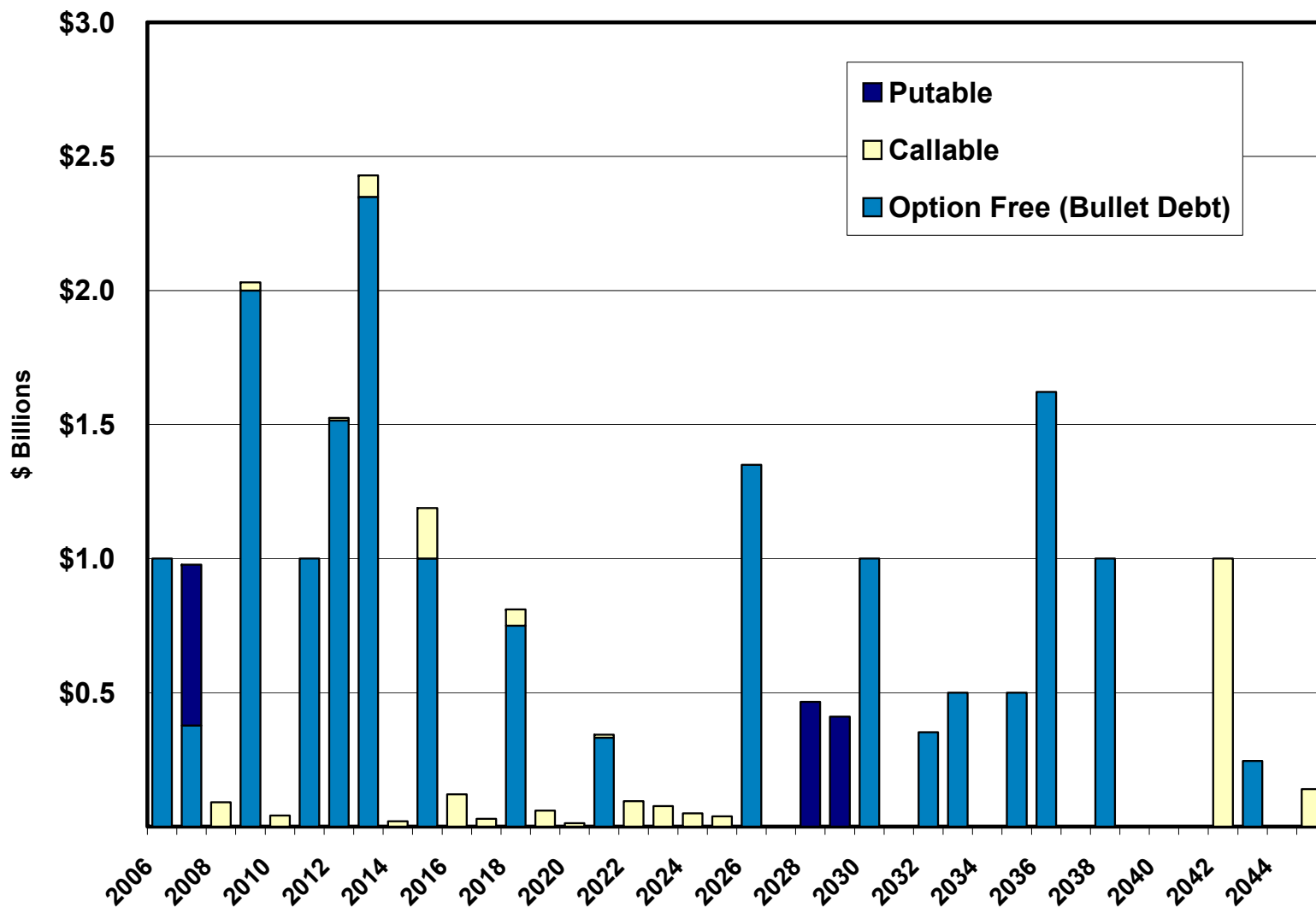
***TVA has \$4 billion in bonds maturing or likely to be redeemed by investors over the next few years.***

Bond	Original Structure	Coupon Rate	Amount (\$ millions)
1996 Series C Global	10 NCL	7.125%	\$ 1,000
2001 Series Put Global	15 PUT 5	4.875%	600
1997 Series A Inflation Bond	10 NCL	6.643%	300
1998 Series G Global	10 NCL	5.375%	2,000
electronotes®	Various	2.893%*	91
			<u>\$ 3,991</u>

\* weighted average



# TVA Bond and Notes Maturities



At December 31, 2005 (unaudited)



# Key Strengths of TVA Securities

- **TVA may only issue securities for power program purposes.**
- **Bondholders given pledge of payment from net power proceeds.**
- **The TVA Act requires TVA to set power rates sufficient to pay, among other things, principal and interest obligations on its securities.**
- **Article III of TVA's Basic Bond Resolution lays out specific tests to protect bondholders:**
  - **Section 3.2 - Rates and Charges**
    - Annual test - requires sufficient revenues to cover specified expenses
  - **Section 3.3 - Protection of Bondholder's Investment**
    - 5-year test – requires TVA to reduce capital obligations or reinvest in power assets to the extent of depreciation of power properties and disposition of power facilities

